

## Message Text

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ORIGIN EUR-12

INFO OCT-01 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00  
DOTE-00 EB-07 INR-07 NSAE-00 EPG-02 FAA-00 NSC-05  
SS-15 L-03 /054 R

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FM SECSTATE WASHDC  
TO AMEMBASSY BONN PRIORITY  
USMISSION USBERLIN PRIORITY  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS

C O N F I D E N T I A L STATE 106519

E.O. 11652: GDS

TAGS: EAIR, PFOR, WB, UK, FR, US, GW

SUBJECT: PAN AM, BRITISH AIRWAYS FARE INCREASE

REF: USBERLIN 1110; BONN 6654 (EXDIS)

1. PAN AM REPRESENTATIVES JAMES MICHAELSON, RICHARD CARLSEN AND ALFRED BLANCATO ON MAY 5 DISCUSSED WITH DEPT OFFICERS PAN AM'S APRIL 27 REQUEST FOR 8.9 PERCENT FARE INCREASE IN INTERNAL GERMAN SERVICES (IGS). PAN AM REPS PRESSED THEIR CASE HARD, RELYING ON INCREASING COSTS AND RECENT 8 PER CENT LUFTHANSA INCREASE. HOWEVER, THEY REALIZE THAT THEIR ORIGINAL JUNE 1 TARGET DATE FOR THE INCREASE, IF APPROVED IS UNREALISTIC.

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2. DEPT OFFICERS AGREED WITH PAN AM THAT IT IS VITAL THAT THE IGS OPERATE ON A SOUND COMMERCIAL BASIS, AND INDICATED THEIR REQUEST WOULD RECEIVE CAREFUL CONSIDERATION. WE POINTED OUT THAT IT WOULD BE IMPORTANT TO BRING THE GERMANS ALONG IF AT ALL POSSIBLE, AND REMINDED PAN AM REPS OF BERLIN GOVERNING MAYOR STOBBE'S VIEW (EXPRESSED WHILE FEDERAL AFFAIRS SENATOR) THAT

THE GERMAN SIDE WOULD NOT AGAIN ASSOCIATE ITSELF WITH AN IGS FARE INCREASE UNLESS THERE WERE A MEANINGFUL DIALOGUE WITH THE ALLIES BEFOREHAND. IN THIS REGARD, WE EXPRESSED SATISFACTION AT PAN AM'S MAKING THEIR 1976 STATISTICS AVAILABLE TO THE CAA'S FOR TRANSMISSION TO THE FRG FOR CONSIDERATION INDEPENDENT OF AND BEFORE ANY FARE INCREASE REQUEST.

3. PAN AM REPS HAD FOLLOWING RESPONSES TO SPECIFIC QUESTIONS POSED DURING THE MEETING:

A. THE INCREASE IN INVESTMENT FROM APPROXIMATELY

DOLS 32 MILLION IN 1974 (APP C, OCTOBER 1974 SUBMISSION) TO DOLS 52 MILLION IN 1977 (APP D, APRIL 1977 SUBMISSION) IS THE RESULT OF LEGITIMATE ACCOUNTING ADJUSTMENTS RATHER THAN NEW INVESTMENT.

B. THE DIFFERENCE BETWEEN THE LOAD FACTOR FOR 1976 IN THE PAN AM APPLICATION (64.9 PER CENT) AND USBERLIN'S FIGURE (67.2 PER CENT) RESULTS FROM (1) PAN AM'S WEIGHTING BY DISTANCE AND (2) EXCLUSION OF NON-REVENUE PASSENGERS.

C. RAISING THE PRICE PROPORTIONALLY MORE FOR NUREMBERG AND MUNICH IS JUSTIFIED BECAUSE THE NEW PRICES WOULD MORE ACCURATELY REFLECT ACTUAL DISTANCE TRAVELED. FURTHERMORE, THOSE ROUTES ARE LESS ELASTIC AND THEREFORE CAN BETTER ABSORB A LARGER INCREASE.  
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D. THE LARGE INCREASE IN PROJECTED EXPENSES FOR 1977 (FOR EXAMPLE FLIGHT MAINTENANCE IN APP E) ARE DUE TO RAPIDLY RISING WAGE COSTS.

E. THE PROPOSED FARE INCREASE WOULD NOT SIGNIFICANTLY DEPRESS IGS PASSENGER VOLUME, WHICH NOW APPEARS TO BE STABILIZING.

4. DEPT OFFICERS INDICATED DEPT WOULD BE PREPARED TO SEEK ADVISORY OPINION FROM CAB AFTER PAN AM PROVIDES EXPLANATION IN WRITING ON POINTS A AND B ABOVE. DEPT WOULD APPRECIATE GENERAL COMMENTS FROM EMBASSY AND MISSION ON FARE INCREASE PROPOSAL, INCLUDING ASSESSMENT OF ITS POLITICAL IMPACT IF APPROVED. ALSO REQUEST APPRASIAL BA'S POSITION, AND COMMENTS ON SPECIFICS OF PAN AM'S APPLICATION INCLUDING THOSE RAISED ABOVE WHICH YOU BELIEVE USEFUL. CHRISTOPHER

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## Message Attributes

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**Review Markings:**  
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